



STATE OF WASHINGTON

DEPARTMENT OF SOCIAL AND HEALTH SERVICES

P.O. Box 45010, Olympia, Washington 98504-5010

December 13, 2004

Ms. Anne Holm, Audit Manager
State Auditor's Office
14th and Jefferson, OB-2
Olympia, WA 98504-0044

Dear Ms. Holm:

Enclosed are the Department of Social and Health Services (DSHS) responses to specific audit areas defined in the FY2004 State Audit of the Medicaid program.

Much of the audit, and consequently much of our response to it, centers on the State Auditor's Office (SAO) contention that the SAO did not receive the resources and information needed to complete its work. This Department rejects that contention, which is not supported by the evidence. However, it is undeniable that this belief is also the culmination of a few years of an increasingly difficult relationship between DSHS and this particular audit team. We believe that the real challenge for both agencies is to repair the broken relationship and re-establish the respectful, arm's-length relationship our agencies have shared in the more distant past.

There is also an odd disconnect within this audit, which disclaims all FY2004 Medicaid expenditures at the same time it divides many of those expenditures up into areas in which the auditors were willing to draw conclusions. We have tried to respond to both ends of this dichotomy, but we do not believe that Government Auditing Standards allow the SAO to disclaim the entire program's expenditures at the same time it issues findings on various audit areas.

Apparently the center of your team's frustration was the audit liaison system we instituted this year in hopes it would improve the way we obtain and deliver the information the auditors need. It was envisioned as a single-stop point of contact for the SAO, which could use the liaison to clarify requests, to help the SAO broaden or narrow an inquiry, or to locate the experts who could explain our processes in a complete and authoritative way. The inescapable conclusion from reading this audit report is that the liaison system did not work as we intended. The SAO did not trust the system. It was perceived as our attempt to limit access. Instead of opening communication, it may have done the opposite, with the audit team withdrawing further from our staff and resulting in our staff being less willing to share information than before.

Some of these findings seem to be clearly motivated more by this mistrust and lack of communication than by any data or conditions under scrutiny. For example, the fact that Department employees correct Social Security number errors in our data when they find

them is viewed as an attempt to invalidate SAO testing. Another example is that erroneous information that made its way into the work papers could not be corrected – even when the Department presented authoritative evidence and documentation showing that the SAO's original information was incorrect. In some cases, the auditors even argued with federal officials over how to interpret federal requirements. For that reason, we have included a number of documents as attachments, which we would like to have included in the audit in their entirety and without editing.

I think there are two points to be made here:

- 1) No one is well served by an impasse that has prevented the SAO from completing its task. We want to rely on your team as an external set of expert eyes, looking at our operations from new perspectives. Private businesses hire auditors for this kind of oversight, and they maintain good working and business relationships at the same time. Surely we in public life can do as well.
- 2) We have proposed a new protocol for future audits, which was given to your office for review. I am attaching a copy to this letter. I encourage the State Auditor's Office review those proposals and to commit to improving our relationship in the future. Or, in the event the SAO staff would like to improve upon that proposal, we would be happy to meet with them and amend, rewrite or redesign those ideas and make them work. I also recommend this happen quickly, as much of the frustration around the current audit surfaced due to last-minute requests and short deadlines.

I believe the real task is to bridge this recent record of failure and antagonism. Let's not be afraid to do the sensible thing, resolving now to put this process back on track and eliminate these problems in the future. Perhaps, the range of options that should be considered is the implementation of the DSHS Audit Protocol and a Medicaid audit partnership that results in a meaningful and objective audit.

Sincerely,

DENNIS BRADDOCK
Secretary

Enclosures